

8-3-45

1.933

M313I

UNITED STATES DEPARTMENT OF AGRICULTURE  
Rural Electrification Administration  
St. Louis 2, Missouri

Reserve

July 21, 1945

A

To: All REA Borrowers

From: Jos. F. Marion, Chief, Finance Division

Subject: Interpretations of REA Manual of Accounts as  
They Apply to REA Cooperatives

Several inquiries have been received from time to time asking for the interpretation that is applied to certain classifications of the REA Manual of Accounts. In order that uniform practices may be applied, we are attaching a group of questions and answers stating the interpretations that are applied by REA in the use of the accounts as mentioned in the questions and answers.

These questions and answers should be filed in the binder with your Manual of Accounts and as need arises, supplements will be issued.

*Jos. F. Marion*

Attachment

OCT 10 1945

SL-7  
C-995





INTERPRETATIONS OF REA MANUAL OF ACCOUNTS  
AS THEY APPLY TO REA COOPERATIVES

(1)

QUESTION

To what account should fees paid an attorney or collection agency for collecting delinquent accounts be charged?

ANSWER

- |                       |             |
|-----------------------|-------------|
| (1) Attorney          | Account 780 |
| (2) Collection Agency | Account 780 |

An attorney may be on a retainer basis in which event the expense (retainer) would be charged to Account 795 - Special Services and under the heading of the retainer would write collection letters--he would thus be performing collection duties. If, however, court costs or additional fees are involved on a collection matter, it is the performance of a collection duty which is the cause of the expense rather than the broader heading legal expenses. The expense should be charged to the department or origin of the expenditure, as this seems to be the intent of the Classification of Accounts.

It is thus possible for legal fees and expenses to be charged to any of several plant accounts and/or Operating Expenses.

(2)

QUESTION

What account should be credited to establish an accrual for accumulative sick leave and what accounts should be debited?

ANSWER

Since the actual liability is not a known amount until employment has ended, or the benefits may have been fully utilized during employment, it is suggested that an account under the "Deferred Credits" Section be used, such as Account 242.2.

We would suggest that the regular payroll distribution accounts be charged, and that a percentage be determined and applied against the payroll. The alternative would be to compute the accumulated leave per employee annually and charge the accounts normally charged with the employee's activities. For example:

If the working days were 312 days per year (not including vacation if granted)

Maximum sick leave 10 days per year

OCT 12 1945

OCT 10 1945



Percentage to be employed 3% per year  
Maximum amount to be in Reserve = 10% of Annual Payroll  
(The sick leave taken would be charged to the accrual from payroll distribution)

Unless a large number of employees are involved we would not suggest any accounting until termination of employment occurs.

(3)

QUESTION

Should the increase in the market value of War Bonds be reflected in the Investment account?

ANSWER

Yes, the increase should be recorded only in the amount of actual redemption value, by a debit to the Investment and a credit to Account 524.1 Interest on Securities Owned or Account 525, Revenues from Sinking and Other Funds.

Note: This applies only to investments that have a guarantee increase. Increases due to the fluctuation of market values are not recognized.

(4)

QUESTION

To what account are surplus supplies or excess tools and work equipment charged? As an example, 6 axes are listed as a normal work inventory, however, they are purchased in two dozen lots. Also rope, files, etc., are purchased in quantity lots.

ANSWER

Materials and Supplies, Account 131.1.

Note: When supplies are issued they should be charged to Account 377 or the appropriate account, depending upon the purpose used.

(5)

QUESTION

To what account is the annual corporation tax charged?

ANSWER

Account 507.7 - Taxes-Other.



(6)

QUESTION

When the Manager or other cooperative representatives attend meetings of the National or State Association, to what account is the expense charged?

ANSWER

Miscellaneous General Expense - Account 801.1.

(7)

QUESTION

What accounts may or may not be used at the option of the cooperative?

ANSWER

The following may or may not be used by the cooperative:

- 100.1 - Electric Plant in Service (Control Account)
- 146 - Other Deferred Debits - Payroll Clearing
- 393 - Donations in Aid of Construction - Credit
- 501 - Operating Revenues (Control Account)
- 502 - Operating Expenses (Control Account)

Note: General instructions, page 1, section 1 of the Manual of Accounts should be strictly adhered to.

(8)

QUESTION

When cooperatives service ranges, water heaters, refrigerators and other appliances for which a charge is made against the consumer, what account should be credited with the revenue? What account should be charged with the expense incurred?

ANSWER

Revenue is credited to Account 520.1. Expense is debited to Account 520.2.

(9)

QUESTION

To what accounts should the labor and expense of keeping and maintaining meter and transformer history and location records be charged?



ANSWER

For maintaining transformer history and location records, use Account 761 - Operation of Lines. For maintaining meter history and location records use Account 762 - Services on Consumers' Premises.

(10)

QUESTION

To what account should wages paid for janitor service be charged?

ANSWER

Distribution for salaries and wages should be made to the appropriate operating expense account under functional groups so far as is practicable. Such wages as cannot be allocated to a functional group should be charged to Account 791 - Other General Office Salaries. If service is on job or contract basis the expense may be charged to Account 793.

(11)

QUESTION

What salaries or wages are chargeable to Account 793 - General Office Supplies and Expenses?

ANSWER

No salaries should be charged to this account.

(12)

QUESTION

To what accounts should the cost of installing a system of continuing property records (Plant Accounting Procedure) be charged? The principal items are as follows:

1. Cost of labor and expenses in making inventory of property.
2. The time and expenses of bookkeeper in making analysis and studies of financial records.
3. Cost of making maps to be used in connection with plant records, labor cost involved in spotting poles on maps and other pertinent information.
4. Cost of ledgers, ledger sheets, card records, etc., (first cost) used in connection with the installation of the record system.

ANSWER

The cost of installing continuing property records should be charged to Account 801.4 - Miscellaneous General Expenses, except that the compensation



and expenses of regular employees who incidentally work on continuing property records should be charged to the accounts appropriate for the normal functions of such individuals.

(13)

QUESTION

What account should be used in Distribution Plant failures, where current goes off for an undue length of time, causing losses of baby chicks and poultry and spoilage of dairy products?

ANSWER

Claims of this type are usually caused by acts of God -- negligence on the part of the system or by voltage conditions. If the losses are not covered by insurance and the Board approves the payment, they are properly chargeable to Account 799 - Injuries and Damages.

(14)

QUESTION

What account should be debited or credited with the clearance from Other Deferred Debits or Other Deferred Credits for General Material Inventory differences?

ANSWER

A special study should be made to determine the type of Materials involved. If it is determined that the shortage is in Poles, or Wire, we recommend the use of Accounts 354 and 355. This should be supported by a Work Order. Initially the department using the Material should be charged; however, where the nature and type of material is unknown and the only thing that is known is the amount of the difference, we recommend the use of Account 810, Store Expense, unless the amount is too large to be charged against the current period. It is also recommended that within six months or at least before the close of the current accounting period that the Suspense accounts be cleared.

(15)

QUESTION

What account should be debited or credited with the clearance from Other Deferred Debits or Other Deferred Credits for Accounts Receivable differences?

ANSWER

A special study should be made to determine the items comprising the difference and if associated with revenue classifications or reserve for bad debts, etc.,



these latter accounts should be used. If, however, such special study is not revealing, Account 615 should be debited or credited with such differences. It is a requirement of good bookkeeping practice to balance the subsidiary accounts with the control monthly and when this is done it localizes the error insofar as the date of happening is concerned. Entries establishing the difference should be recorded to other deferred debits or credits as they are known. A time limit of six months or prior to close of current accounting period is suggested for the clearance from Suspense.

Losses in Merchandise for Resale Inventory should be charged to 520.2 - Cost of Sales, etc., and losses or differences in receivables should be debited or credited to 520.1 unless associated with Reserve for Bad Debts.

(16)

#### QUESTION

What is the correct procedure for entries affecting 401 and 414? Should 401 only be debited or credited with items affecting Revenue (501 accounts) and should 414 be used only for accounts other than 501?

#### ANSWER

Account 401 is to be credited with amounts affecting net revenue, i.e., that is all credits to all income accounts. Account 414 is to record debit entries, such as a correction of gross Operating Revenue.

Additional Expenses (Prior Years)  
Additional Depreciation (Prior Years)  
Additional Taxes (Prior Years)  
Additional Interest (Prior Years)

However, the foregoing is to be amended to this extent--that a debit entry which is intended to correct a credit in Account 401 should be charged to 401 and likewise a credit entry which is intended to correct a debit in 414 should be credited to 414. The latter procedure thus establishes a net credit or a net debit for the adjustment.

(17)

#### QUESTION

Why not discontinue the use of a letter suffix and substitute therefor a number. The following is an example:

Change Account 242.2A Deferred Credits, Line Materials and  
Supplies - Suspense, to Account 242.21

#### ANSWER

It is, of course, desirable to maintain consistency in the number of accounts; however, Account 242.2 Other Deferred Credits, with the explanation thereto is



sufficiently revealing. It is our opinion and experience that simplicity in account numbers (primary account with subsidiary designation in one place after the decimal followed by the wording of the account) causes greater accuracy and brings about more intelligent posting than is accomplished by a use of a multitude of decimals and letters; thus we may have any number of accounts designated 242.2 - Other Deferred Credits, but the remedy is present when the account is correctly described.

(18)

QUESTION

Does the wording in the third paragraph of Account 125.1 mean that membership fees, which are not refundable as indicated by By-Laws, may nevertheless be applied against the account?

ANSWER

The answer seems to be in the closing sentence of this paragraph in which Board action is required on both the application of a membership fee against an account and also the write-off thereof. If the By-Laws do not permit the refunding of memberships, they could not be applied until the By-Laws were amended to permit such action.

(19)

QUESTION

The use of 125.3 Unpaid Checks Returned conflicts with the items included under 125.1; further, the explanation of credits to Account 125.3 is not clear.

ANSWER

The first part of the above is true--Account 125.1 by the text or list of inclusions does provide for amounts normally charged to 125.3. The wording of the credits in 125.3 should be corrected to "Payment or Charge-off" rather than "Payment of Charge-off."

(20)

QUESTION

A consumer has discontinued service and has not claimed his meter deposit.

- (1) What disposition should be made of the deposit after mailing a notice to his last known address that it was available?
- (2) How long should this unclaimed deposit remain in Account 227 - Consumers' Deposits?



ANSWER

- (1) \*When there is no further legal liability to refund such deposit, it should be transferred to the Reserve for Uncollectible Accounts. Complete information should be retained of all particulars pertaining to the transaction.
- (2) Until the legal liability of the cooperative to make such refund has lapsed.

\*Note: Most states have laws governing the disposition of consumers' deposits, in some instances they are to be paid to the state. The system's attorney should be consulted as to the local requirements before making any disposition of the deposit.